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11 April 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY, NSW, 2001

Dear Ms Collyer

Re: Review of the form of the Reliability Standard and Administered Price Cap - Issues Paper

The Australian Energy Regulator (AER) appreciates the opportunity to comment on the issues paper for this review. We note the important role that both the form and level of the Reliability Standard plays in balancing the reliability of energy supply with affordability for consumers.

The AER develops and publishes estimates of the Value of Customer Reliability (VCR) that reflect the value different types of customers place on a reliable electricity supply under different conditions. There are potential synergies across both the process for calculating these values as well as ensuring that the respective roles and limitations of the Reliability Standard setting and VCR estimates are communicated to stakeholders to provide clarity and avoid confusion in their application. The AER is happy to engage further with the AEMC and Reliability Panel as it progresses the forthcoming review of the VCR estimates which are due to be published by December 2024.

The AER appreciates the potential benefits in increasing flexibility in the form of the Administered Price Cap (APC) so that it can capture a wide range of wholesale market scenarios and deliver incentives for participants to supply energy. However, there are a number of issues that should be considered in moving to a new form of the APC. These include:

- The impacts of a more dynamic cap on contract markets, certainty and liquidity; and
- The mechanism by which the APC is dynamically updated.

Considering these questions alongside the potential benefits of a reform is essential in determining the merit of the proposed change.

The AER also notes the Reliability Panel has focussed on indexing the APC to gas prices, with a range of different methodologies proposed. Over time, and depending on market circumstances, it is possible other supply resources could become the marginal or highest cost resource. Therefore, it is unclear whether it would be prudent in the long-term for gas to be singled out for this purpose. Instead, other sources of generation or supply could also be factored into the setting of a dynamic APC to achieve a more technologically neutral framework.

The AER looks forward to engaging closely on these issues as this review progresses.

Yours sincerely



Mark Feather
General Manager
Strategic Energy Policy and Energy Systems Innovation

Sent by email on: 15.05.2023